



GAIL FARBER, Director

**COUNTY OF LOS ANGELES
DEPARTMENT OF PUBLIC WORKS**

"To Enrich Lives Through Effective and Caring Service"

900 SOUTH FREMONT AVENUE
ALHAMBRA, CALIFORNIA 91803-1331

<http://dpw.lacounty.gov>

ADDRESS ALL CORRESPONDENCE TO:
P.O. BOX 1460
ALHAMBRA, CALIFORNIA 91802-1460

May 06, 2014

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

ADOPTED

BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES

62 May 6, 2014

Sachi A. Hamai
SACHI A. HAMAI
EXECUTIVE OFFICER

**APPROVAL OF AMENDMENT NO. 1 TO THE AMENDED AND RESTATED WATER
SYSTEM AGREEMENT NO. 66407 BETWEEN LOS ANGELES COUNTY
WATERWORKS DISTRICT NO. 40 AND PALMDALE HILLS PROPERTY LLC AND
SETTLEMENT AGREEMENT BETWEEN LOS ANGELES COUNTY
WATERWORKS DISTRICT NOS. 37 AND 40 AND LV RITTER RANCH LLC IN
PALMDALE HILLS PROPERTY LLC BANKRUPTCY PROCEEDING
(SUPERVISORIAL DISTRICT 5)
(3 VOTES)**

SUBJECT

This action is to approve and delegate authority to the Director of Public Works or her designee to execute Amendment No. 1 to the Amended and Restated Water System Agreement No. 66407 between Los Angeles County Waterworks District No. 40, Antelope Valley, and Palmdale Hills Property LLC and to execute a Settlement Agreement between Los Angeles County Waterworks District Nos. 37, Acton, and 40, Antelope Valley, and LV Ritter Ranch LLC, as successor-in-interest to Palmdale Hills Property LLC and its predecessor-in-interest, SunCal, to resolve claims made by Districts 37 and 40 in the bankruptcy proceeding of Palmdale Hills Property LLC by stipulation of the parties and through payment of \$375,000 by LV Ritter Ranch LLC to District 40.

IT IS RECOMMENDED THAT THE BOARD ACTING AS THE GOVERNING BODY OF THE LOS ANGELES COUNTY WATERWORKS DISTRICT NOS. 37, ACTON, AND 40, ANTELOPE VALLEY:

1. Find that approval of Amendment No. 1 to the Amended and Restated Water System Agreement No. 66407 and the Settlement Agreement between Districts 37 and 40 and LV Ritter Ranch LLC is within the scope of the previously approved Mitigated Negative Declaration dated September 7, 1990, and Addendum prepared by District 40 for the off-site water system proposed for the Ritter

Ranch development and the 2006 Amended and Restated Water System Agreement between District 40 and Palmdale Hills Property LLC, predecessor-in-interest to LV Ritter Ranch LLC, for water service to Ritter Ranch.

2. Approve and authorize the Director of Public Works or her designee to execute Amendment No. 1 to the Amended and Restated Water System Agreement No. 66407 between District 40 and Palmdale Hills Property LLC.
3. Approve and authorize the Director of Public Works or her designee to execute the Settlement Agreement between Districts 37 and 40 and LV Ritter Ranch LLC.
4. Delegate authority to the Director of Public Works or her designee to execute on behalf of Districts 37 and 40 any other documents required by the terms of the Settlement Agreement.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

The purpose of this action is to approve Amendment No. 1 of the Amended and Restated Water System Agreement No. 66407 (Enclosure A) between District 40 and Palmdale Hills Property LLC (PHP) (the Ritter Ranch Agreement), and a Settlement Agreement (Enclosure B) between Districts 37 and 40 and LV Ritter Ranch LLC (LVRR), a wholly owned subsidiary of Lehman VD Lenders (Lehman Brothers), as successor-in-interest to PHP, to resolve claims made by Districts 37 and 40 in the bankruptcy proceeding of PHP. The Settlement Agreement will resolve Districts 37's and 40's objections to the bankruptcy by stipulation, and LVRR will pay District 40 \$375,000 for litigation costs and District 40 expenses.

The initial Water System Agreement (1992 Agreement) for the Ritter Ranch development was executed in 1992 between the Ritter Park Associates LLP (original developer) and District 40. Ritter Ranch is located in West Palmdale. The Ritter Ranch development, as originally proposed, contemplated approximately 7,200 new homes and related commercial and recreational facilities. On March 31, 1992, the Board, acting as the governing body of District 40: (1) approved the Mitigated Negative Declaration for the off-site water system facilities required for water service to Ritter Ranch, (2) found that the off-site facilities would have no adverse effect on the environment with the implementation of mitigation measures, (3) approved the 1992 Agreement, and (4) authorized the Director of Public Works to negotiate and approve any revisions to time limits for any of the various phases of the project.

Subsequently, the original developer encountered financial difficulties, failed to build the water system infrastructure under the 1992 Agreement, and filed for bankruptcy.

In 2004 SunCal purchased the assets of the original developer at a bankruptcy auction. SunCal claimed that one of the assets it purchased was the 1992 Agreement. In 2005 District 40 filed a declaratory relief action with the Bankruptcy Court for a determination that the 1992 Agreement was no longer valid and could not have been assigned to SunCal. District 40's claims included that the 1992 Agreement was breached and that the proposed water system failed to meet the current needs of the Ritter Ranch development. In 2006 District 40 and SunCal agreed to settle the litigation and the Board approved a settlement agreement and the Ritter Ranch Agreement.

In 2008 SunCal and its successor in interest, PHP, filed for bankruptcy and Lehman Brothers took control of the Ritter Ranch property and development. In the bankruptcy proceeding, District 40 filed

an objection to PHP's plan to assign the Ritter Ranch Agreement to Lehman Brothers on the basis that the contract could not be assigned, that the contract was anticipatorily breached by PHP and that the breach caused District 40 damages.

The 2008 SunCal bankruptcy also included a water service agreement (Acton I Agreement) with District 37 that the Board approved on March 28, 1989, wherein several developers desired to construct 601 single-family residences within District 37. For District 37 to provide water service to these proposed developments, it was necessary to construct water system infrastructure, including a new well, pipelines, storage tanks, and related appurtenances. To expedite construction, the developers agreed to provide financing and construct the necessary improvements. Upon completion, the facilities were turned over to District 37 for operation and maintenance. The "Acton I Agreement" established the terms of the arrangement between the developers and District 37, including the creation of water credit units that could partially offset District 37's connection fees. SunCal later purchased one of the developments from a developer that was a party to the Acton I Agreement. In the bankruptcy proceeding, District 37 filed an objection to SunCal's plan to assign the Acton I Agreement to LVRR on the basis that the contract expired on December 17, 2010, according to its own terms. With the withdrawal of the objection to the SunCal transfer of the Ritter Ranch Agreement, SunCal, and its successors-in-interest, will affirm that the Acton I Agreement is expired.

The recommended action will settle Districts 37's and 40's objections to the bankruptcy, confirm the expiration of the Acton I Agreement, and allow the transfer of the Ritter Ranch Agreement to LVRR, with District 40's negotiated revisions to certain terms, including the downsizing of the project, securing rights to certain water facilities, and compensation for legal costs and District 40 expenses.

Implementation of Strategic Plan Goals

The Countywide Strategic Plan directs the provision of Operational Effectiveness (Goal 1) and Fiscal Sustainability (Goal 2) by providing sufficient funds, which will provide reliable water supply to our existing and future customers through effective water supply management.

FISCAL IMPACT/FINANCING

There will be no impact to the County General Fund.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

As part of the settlement, the parties agree to enter into Amendment No. 1 to the Ritter Ranch Agreement, which provides for certain changes to the infrastructure needed to accommodate the downscaling of the Ritter Ranch project from 7,200 homes to 4,500 homes, accomplished through the elimination of one of the Ritter Ranch project's original five phases.

As a condition of settlement, LVRR will pay District 40 an amount of \$375,000 for litigation costs and District expenses.

ENVIRONMENTAL DOCUMENTATION

In 1992 the Board adopted a Mitigated Negative Declaration (MND) for various on-site and off-site water system facilities including construction of wells, chlorination facilities, forebay tanks, booster pumping stations, water transmission mains, and necessary appurtenances for the Ritter Ranch

development water system. In 2006 the Board approved an Addendum to the MND, which changed the size and configuration of the wells and appurtenances. Approval of the Settlement Agreement will require District 40 and LVRR to enter into Amendment No. 1 to the Ritter Ranch Agreement resulting in the downsizing of the previously approved water system infrastructure for the Ritter Ranch Agreement to accommodate a reduction in anticipated water need associated with the elimination of one of the original phases of the project. Amendment No. 1 is within the scope of the project analyzed in the previously adopted MND and Addendum. District 40 has determined that there are no substantial changes in the previously approved project or substantial changes in the circumstances under which the project will be undertaken that require major revisions to the previous environmental document. Additionally, there is no new information of substantial importance that would show new significant impacts or more severe impacts or the need for or additional mitigation not previously identified.

Upon the Board's approval of Amendment No. 1 to the Ritter Ranch Agreement and the Settlement Agreement, Public Works will file a Notice of Determination with the County Clerk in accordance with Section 21152(a) of the California Public Resources Code.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

There will be no negative impact on current County services or projects that would result from approval of the recommended action.

CONCLUSION

Please return one adopted copy of this letter to the Department of Public Works, Waterworks Division.

Respectfully submitted,



GAIL FARBER

Director

GF:AA:dvt

Enclosures

c: Chief Executive Office (Rita Robinson)
County Counsel
Executive Office

ENCLOSURE A

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**AMENDMENT NO. 1 TO THE AMENDED AND RESTATED WATER SYSTEM
AGREEMENT BETWEEN LOS ANGELES COUNTY WATERWORKS
DISTRICT NO. 40, ANTELOPE VALLEY, AND LV RITTER RANCH, LLC**

This Amendment No. 1 ("Amendment") is made by and between Los Angeles County Waterworks District No. 40, Antelope Valley, a public county waterworks district formed pursuant to Division 16 of the State Water Code (the "District"), and LV Ritter Ranch LLC (the "Builder") (collectively, the "Parties") as of _____, 2014 (the "Effective Date").

I.

RECITALS

A. As of August 15, 2006, the District and Palmdale Hills Property, LLC ("Palmdale Hills") entered into the Amended and Restated Water System Agreement Between Los Angeles County Waterworks District No. 40, Antelope Valley and Palmdale Hills Property, LLC ("Water System Agreement") (a true and correct copy of which is attached hereto as Exhibit 1).

B. The Water System Agreement concerns water service to be provided by the District to a proposed development project referred to as the "Development" in the Water System Agreement. The Development will be located on real property referred to as the "Ritter Property" in the Water System Agreement.

C. The Builder is (i) the current owner of the Ritter Property and (ii) assignee of Palmdale Hills' rights and obligations under the Water System Agreement.

II.

TERMS OF THE AMENDMENT

WHEREFORE, for valuable consideration, the receipt of which is hereby acknowledged by the Parties, the Parties hereby agree as follows:

A. The definition of the term "Development" set forth on page 3 of the Water System Agreement is hereby deleted and replaced with the following definition: Development' means that certain development project consisting of residential and other uses as identified in the summary of the Specific Plan previously approved by the City of Palmdale, commonly referred to as the Ritter Ranch Development and located on the Ritter Property, including any amendments to that Specific Plan that may be hereafter approved by the City of Palmdale so long as such amendments do not authorize more than 4,500 residential units and do not materially increase the water demands attributable to the non-residential uses in the Specific Plan."

B. Exhibit C-1 to the Water System Agreement is hereby deleted and replaced with Exhibit C-1(A) attached hereto. All references in the Water System Agreement to Exhibit C-1 are hereby replaced with references to Exhibit C-1(A).

C. Exhibit C-3 to the Water System Agreement is hereby deleted and replaced with Exhibit C-3(A) attached hereto. All references in the Water System Agreement to Exhibit C-1 are hereby replaced with references to Exhibit C-3(A).

D. Section 3.14 is added to the Water System Agreement and provides as follows: "Prior to the District's issuance of any Conditional Will Serve Letter for the Development, (1) the Builder shall secure the Antelope Valley-East Kern Water Agency's ("AVEK") written permission for the District with the District as third party beneficiary,

to have unfettered access and use of AVEK facilities for transportation of potable water to the Project at no cost to the District (e.g., all costs of the water are to be included in AVEK's sales price of the water it sells to the District as a whole) or in the alternative, (2) the Builder agrees to build the necessary water conveyance infrastructure in lieu of the use of AVEK facilities, and dedicate at no cost that infrastructure to the District for ownership, operations, and maintenance to the District."

E. Section 2.0.2 of the Water System Agreement is hereby amended by adding the following as the new final sentence: "The WSI Plans and Specs shall be prepared and signed by a registered engineer under contract with the Builder."

F. Except as expressly amended by this Amendment, all other terms and conditions of the Water System Agreement remain in full force and effect.

May _____, 2014

Los Angeles County Waterworks District No. 40

By:
Its:

May _____, 2014

LV Ritter Ranch LLC

By:
Its:

APPROVED AS TO FORM ONLY:

APPROVED AS TO FORM ONLY:

JOHN F. KRATTLI
County Counsel

Alston & Bird LLP

By _____
MICHAEL L. MOORE
Principal Deputy County Counsel

By: Edward J. Casey

EXHIBIT C-1 (A)

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EXHIBIT C-3 (A)

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ENCLOSURE B

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SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is made by and between Los Angeles County Waterworks District No. 40, Antelope Valley, a public county waterworks district formed pursuant to Division 16 of the State Water Code ("District 40"), Los Angeles County Waterworks District No. 37, Acton, a public county waterworks district formed pursuant to Division 16 of the State Water Code ("District 37" and collectively with District 40 as the "Districts") and LV Ritter Ranch LLC (the "Builder") (collectively, the "Parties") as of _____, 2014 (the "Effective Date").

I.

RECITALS

A. As of August 15, 2006, the District and Palmdale Hills Property, LLC ("Palmdale Hills") entered into the Amended and Restated Water System Agreement Between Los Angeles County Waterworks District No. 40, Antelope Valley and Palmdale Hills Property, LLC. The components of this agreement include (1) the Settlement Agreement dated August 15, 2006, by and between Los Angeles County Waterworks District No. 40, and (2) the Amended and Restated Water System Agreement by and between Los Angeles County Waterworks District No. 40, Antelope Valley and Palmdale Hills Property, LLC. (collectively "Water System Agreement").

B. The Water System Agreement concerns water service to be provided by the District to a proposed development project referred to as the "Development" in the Water System Agreement. The Development will be located on real property referred to as the "Ritter Property" in the Water System Agreement.

C. On August 23, 2011, certain affiliated entities (the "Lehman VD Lenders") of the Builder filed in the action entitled, In re: Palmdale Hills Property, LLC, and its Related Debtor, Chapter 11, Case No.: 8.08-bk-17206-ES (the "Bankruptcy Case") the *Third Amended VD Plan* (the "Solicited Plan"). It provided that ownership of the Ritter Property would be transferred to the Builder and that the Water System Agreement would be assumed by the Estate of Palmdale Hills and assigned to the Builder. The Solicited Plan also provided that the Acton Estates LLC Water Agreement would be transferred to the Builder.

D. On October 7, 2011, the Los Angeles County Waterworks Districts Nos. 40 and 37 jointly (collectively the "District") filed in the Bankruptcy Case its objection to the assumption and assignment and proposed cure as to its contracts (the "Assumption Objection"), and on October 24, 2011, the District filed a proof of claim [Claim number 119-1], asserting a protective claim for current and ongoing damages from alleged defaults with respect to the Ritter Water System Agreement. The District's claim also alleged that the Acton Estates LLC Water Agreement had expired as of December 17, 2010, and could not be transferred to the Builder.

E. On November 29, 2011, the Lehman VD Lenders filed in the Bankruptcy Case their *Fifth Amended VD Plan* (the "Lehman Fifth Amended Plan"), which included the same terms as to these matters as the Solicited Plan. On January 6, 2012, the Court in the Bankruptcy Case (the "Bankruptcy Court") entered its order confirming and amending the Lehman Fifth Amended VD Plan, providing that the assumption and assignment of the Water System Agreements would occur only after a further order of the Bankruptcy Court (the "Further Order").

F. On April 26, 2012, the Lehman VD Lender filed in the Bankruptcy Case a notice [Docket No. 3692] identifying the Builder as Lehman Nominee for receipt of the Ritter Property and for purposes of Plan Assumption.

G. On April 27, 2012, the Lehman VD Lenders filed a notice [Docket No. 3693] in the Bankruptcy Case identifying April 27, 2013 as the Lehman VD Lenders Plan's effective date, and the effective date occurred and the Ritter Property was transferred to the Builder.

H. On March 25, 2013, the Bankruptcy Court entered an order [Docket No. 4629] continuing the hearing to consider a Further Order, which had been continued prior, from time-to-time. The Parties to this Agreement may seek a further continuance of the hearing on Further Order pending the Effective Date of this Agreement.

I. The Parties now seek to resolve the Assumption Objections by entering into this Agreement.

II.

TERMS OF THE AGREEMENT

WHEREFORE, for valuable consideration, the receipt of which is hereby acknowledged by the Parties, the Parties hereby agree as follows:

A. Settlement Check.

Within twenty (20) calendar days after the Effective Date of this Agreement, the Builder shall deliver a check to the District, care of its counsel, Michael L. Moore, made to the order of Los Angeles County Waterworks District No. 40 in the amount of \$375,000.00.

B. Expiration of Acton Estates LLC Water System Agreement with District 37.

Builder agrees that the Acton Estates LLC Water System Agreement with District 37 has expired and is no longer in force, and the Builder has abandoned any claim to the Acton Estates LLC Water System Agreement.

C. Amendment of the Ritter Ranch Water System Agreement

The Builder and the District agree to mutually amend the Water System Agreement to downscale the onsite and off-site water system to accommodate no more than 4,500 homes, from the original Ritter Ranch project size of 7,200 homes. The Water System Agreement shall be amended by Amendment No. 1, (attached herewith as Exhibit B.) wherein the reduced water system shall be clearly stated and meet the standards reasonably required by the District. Amendment No. 1 shall also address and require that, as a condition to the District's issuance of a conditional will serve letter for the Development, (1) the Builder shall secure a written agreement with AVEK, with the District as the third party beneficiary, for the District to have unfettered access and use of AVEK facilities for transportation of potable water to the Project for the life of the Project at no cost to the District (e.g., all costs of the water are to be included in AVEK's sales price of the water it sells to the District as a whole), or in the alternative, (2) the Builder agrees to build the necessary water conveyance infrastructure in lieu of the use of AVEK facilities, and dedicate at no cost that infrastructure to the District for ownership, operations and maintenance to the District. The Parties shall use their best efforts to promptly prepare and enter into Amendment No. 1. The Parties further agree that the Builder will ensure compliance with CEQA, and secure appropriate approvals prior to implementing any activities that would constitute a project outside the scope of the 1992

Mitigated Negative Declaration and subsequent 2006 Addendum to the Mitigated Negative Declaration. The Builder agrees to fund all CEQA compliance activities and provide The District and the County of Los Angeles CEQA indemnification to the furthest extent possible pursuant to law. The parties further agree that all other provisions of the Water System Agreement remain in full force and effect.

D. Withdrawal of Objection

Within ten (10) calendar days after receipt of the settlement check referenced in Section II-A, above, the District shall withdraw the Assumption Objection to the Water System Agreement, and thereby agree to assumption by the Estate of Palmdale Hills and assignment to the Builder of the Water System Agreement by filing in the Bankruptcy Court the "Stipulation Between Los Angeles County Waterworks District No. 40, Antelope Valley, and Lehman VD Lenders Resolving Contract Assumption/Assignment Re Debtor Palmdale Hills [Docket Nos. 2598 & 3020] and Withdrawing Claim 119-1 Filed in the Case of Palmdale Hills," in the form attached hereto as Exhibit "A" or in a substantially similar form (the "Notice of Withdrawal of Objection"). Upon entry of a court order approving the assumption of the Water System Agreement, the Parties acknowledge that there is no outstanding breach of the Water System Agreement by either Party or their respective predecessors as of the date of that court order, and that the Water System Agreement has been reinstated to a non-breach status. Subject to tender of the settlement check referenced in Section II-A above, the Water System Agreement will be deemed assumed by the Estate of Palmdale Hills and assigned to LV Ritter Ranch, under the confirmed Plan, which assignment, pursuant to Bankruptcy Code section

365(k) effects a novation, substituting LV Ritter Ranch for Palmdale Hills as a party to the Water Contract.

E. Revising WSI.

1. The Parties shall promptly cooperate with one another in promptly revising the off-site water system improvements and facilities shown on Exhibit C-1 to the Water System Agreement (referred to as the "WSI" in the Water System Agreement) to modify the WSI (the "Reduced WSI") to reflect the reduction in the size of the Development. (The reduced Development is described in Section II-A of Exhibit "B" hereto.) Within three (3) calendar days, or as soon thereafter as possible, after the Parties approve the Reduced WSI, including the preparation of new Exhibits C-1(A) and C-3(A) referenced in Section II-B and C of Exhibit B hereto, the Parties shall sign Amendment No. 1 to the Water System Agreement as provided as Exhibit "B" hereto.

2. Nothing in this Agreement shall be construed as a waiver of, or in any way limit, contradict or prohibit any Party from enforcing, this Agreement or the Water System Agreement or any terms or provisions hereof.

F. Additional Provisions.

1. Execution of Additional Documents. Each of the Parties agrees to promptly do such acts and execute such additional documents as might be necessary to carry out the provisions and effectuate the purposes of this Agreement.

2. Authority. Each person executing this Agreement on behalf of a corporation or other entity represents that he or she has the full legal right, power and authority to execute and deliver this Agreement and to bind the Party for whom such

individual is signing, and to cause such Party to perform its obligations hereunder, subject to Section II (F)(14) of this Agreement.

3. No Reliance on Others. No representations, oral or otherwise, express or implied, other than those contained herein have been made by any Party, or any officer, director, shareholder, partner, associate, agent, affiliate, insurer, attorney or employee thereof. By executing this Agreement, each of the Parties warrants and represents that this Agreement is made and entered into without reliance upon any statements or representations of any other Party, or in reliance upon any statements or representations made by any officers, directors, shareholders, partners, associates, agents, affiliates, insurer, attorneys or employees, of any other Party.

4. Independent Investigation. Each of the Parties warrants and represents that he, she or it has made its own independent investigation, in the manner deemed necessary and appropriate by them, of the facts and circumstances surrounding this Agreement and the settlement contained herein, and that through such independent investigation, each Party has satisfied itself that the execution of this Agreement and entry into the settlement contained herein is in his, her or its best interest. Also, each of the Parties warrants and represents that his, her or its independent investigation has included, but not been limited to, receipt of independent advice by legal counsel on the advisability of entering into this Agreement and making the settlement contained herein.

5. Compromise of Disputed Claims. Each of the Parties acknowledges and agrees that this Agreement is the compromise of a disputed claim, and that nothing contained in this Agreement shall be construed as admissions of liability on the part of any Party. Neither this Agreement nor any of its terms shall be offered or

received as evidence in any proceeding in any forum as an admission of any liability or wrongdoing on the part of any of the Parties.

6. Litigation Expenses. Each of the Parties hereby agrees that it shall be responsible for its own costs of suit and attorneys' fees incurred and/or accrued in connection with the Bankruptcy Case.

7. Construction of Agreement. Each of the Parties has cooperated in the drafting and preparation of this Agreement and, therefore, any construction of the intent of the Parties or language hereof to be made by a court or arbitrator shall not be construed against any of the Parties.

8. Comprehension of Terms. Each of the Parties warrants and represents that he, she and it has read this Agreement in full, fully understands each and every provision hereof, and agrees to be bound by all of the terms and provisions set forth herein.

9. Inurement to Others. Each of the Parties agrees that the terms and conditions contained in this Agreement shall inure to the benefit of each of the Parties and each of the Released Parties described in Section II-D, above.

10. Governing Law. This Agreement shall be deemed to have been executed and delivered within the State of California, and the rights and obligations of the Parties hereunder shall be governed by, construed and enforced in accordance with the laws of the State of California, and the United States Bankruptcy Code, where applicable.

11. Severability. Any portion of this Agreement found to be invalid, void or unenforceable shall be deemed severable from the remainder of this Agreement

and shall not invalidate the remainder of the Section in which it is located or the remainder of this Agreement.

12. Amendment. This Agreement may be amended only by a written agreement signed by all Parties.

13. Headings. The titles and headings of the various sections of this Agreement are intended solely for convenience of reference and shall not be construed as an explanation, modification or intended construction of any terms or provisions of this Agreement.

14. This Agreement is contingent on approval of the Los Angeles County Board of Supervisors, acting as the Board of Directors of Waterworks Districts Nos. 37 and 40.

15. Notice. Any notice required or permitted to be given under the terms of this Agreement shall be in writing and delivered by Overnight Mail and by facsimile or electronic transmission, unless another means of delivery is expressly authorized or required in this Agreement for a particular notice. Notices shall be sent to the following persons:

To: Los Angeles County Waterworks District Nos. 37 and 40	With a copy to: Michael L. Moore Principal Deputy County Counsel Los Angeles County Counsel's Office 648 Kenneth Hahn Hall of Administration 500 West Temple Street Los Angeles, California 90012 Telephone: (213) 974-8407 E-mail: MMoore@counsel.lacounty.gov
To: LV Ritter Ranch LLC	With a copy to: Edward J. Casey, Esq.

	Alston & Bird LLP 333 South Hope Street, 16 th Floor Los Angeles, CA 90071 Telephone: (213) 576-1000 Facsimile: (213) 576-1100 E-mail: ed.casey@alston.com
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Notice shall be deemed given as of the date of transmission of the notice. Any Party may change its addressee(s) for notice by providing written notice of such change in accordance with the requirements of this Section of the Agreement.

May_____, 2014

Los Angeles County Waterworks District Nos. 37 and 40

 By:
 Its:

May_____, 2014

LV Ritter Ranch LLC

 By:
 Its:

APPROVED AS TO FORM:

Alston & Bird LLP

JOHN F. KRATTLI
 County Counsel

By _____
 MICHAEL L. MOORE
 Principal Deputy County Counsel

By _____
 Edward J. Casey

EXHIBIT A

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1 Richard M. Pachulski (CA Bar No. 90073)
Dean A. Ziehl (CA Bar No. 84529)
2 Robert B. Orgel (CA Bar No. 101875)
PACHULSKI STANG ZIEHL & JONES LLP
3 10100 Santa Monica Blvd., 13th Floor
Los Angeles, California 90067-4100
4 Telephone: 310/277-6910 / Facsimile: 310/201-0760

5 Edward Soto (admitted *pro hac vice*)
Alfredo R. Perez (admitted *pro hac vice*)
6 WEIL, GOTSHAL & MANGES LLP
767 Fifth Avenue
7 New York, NY 10153-0119
Telephone: (212) 310-8000 / Facsimile: (212) 310-8007

8 Attorneys for Lehman Commercial Paper Inc. and Lehman
9 ALI, Inc.

10 **UNITED STATES BANKRUPTCY COURT**
11 **CENTRAL DISTRICT OF CALIFORNIA**
SANTA ANA DIVISION

12 In re:
Palmdale Hills Property, LLC, and Its Related
13 Debtors,
14 Jointly Administered Debtors and
Debtors-In-Possession.

15 Affects:

- 16 All Debtors
 Palmdale Hills Property, LLC
17 SunCal Beaumont Heights, LLC
 SCC/Palmdale, LLC
 SunCal Johannson Ranch, LLC
18 SunCal Summit Valley, LLC
 SunCal Emerald Meadows, LLC
19 SunCal Bickford Ranch, LLC
 Acton Estates, LLC
20 Seven Brothers, LLC
 SJD Partners, Ltd.
21 SJD Development Corp.
 Kirby Estates, LLC
22 SunCal Communities I, LLC
 SunCal Communities III, LLC
23 SCC Communities, LLC
 North Orange Del Rio Land, LLC
24 Tesoro SF, LLC
 LB-L-SunCal Oak Valley, LLC
25 SunCal Heartland, LLC
 LB-L-SunCal Northlake, LLC
26 SunCal Marblehead, LLC
 SunCal Century City, LLC
27 SunCal PSV, LLC
 Delta Coves Venture, LLC
28 SunCal Torrance, LLC
 SunCal Oak Knoll, LLC

Case No.: 8:08-bk-17206-ES
Jointly Administered Case Nos.
8:08-bk-17209-ES; 8:08-bk-17240-ES;
8:08-bk-17224-ES; 8:08-bk-17242-ES;
8:08-bk-17225-ES; 8:08-bk-17245-ES;
8:08-bk-17227-ES; 8:08-bk-17246-ES;
8:08-bk-17230-ES; 8:08-bk-17231-ES;
8:08-bk-17236-ES; 8:08-bk-17248-ES;
8:08-bk-17249-ES; 8:08-bk-17573-ES;
8:08-bk-17574-ES; 8:08-bk-17575-ES
8:08-bk-17404-ES; 8:08-bk-17407-ES;
8:08-bk-17408-ES; 8:08-bk-17409-ES;
8:08-bk-17458-ES; 8:08-bk-17465-ES;
8:08-bk-17470-ES; 8:08-bk-17472-ES;
and 8:08-bk-17588-ES

Chapter 11

**STIPULATION BETWEEN LOS ANGELES
COUNTY WATERWORKS DISTRICT NO.
40, ANTELOPE VALLEY, LOS ANGELES
COUNTY WATERWORKS DISTRICT NO.
37, ACTON AND LEHMAN VD LENDERS
RESOLVING CONTRACT ASSUMPTION /
ASSIGNMENT RE DEBTOR PALMDALE
HILLS [DOCKET NOS. 2598 & 3020] AND
WITHDRAWING CLAIM 119-1 FILED IN
THE CASE OF PALMDALE HILLS**

Date: October 10, 2013
Time: 10:30 a.m.
Place: Courtroom 5A

1 Los Angeles County Waterworks District No. 40, Antelope Valley ("District 40"),
2 Los Angeles County Waterworks District No. 37, Acton ("District 37") (hereinafter collectively with
3 District 40 as the "Districts") and Lehman Commercial Paper Inc. and Lehman ALI, Inc. (the
4 "Lehman VD Lenders" and together with the Districts, the "Parties"), by and through their respective
5 counsel, enter into this stipulation (the "Stipulation"), with respect to the matters set forth herein.

6 **RECITALS**

7 A. On July 15, 2011, the Lehman VD Lenders filed their *Third Amended Joint*
8 *Chapter 11 Plan for Eleven Voluntary Debtors Proposed by the Lehman VD Lenders*, dated July 15,
9 2011 [Docket No. 2598] (the "Third Amended Plan").

10 B. On August 1, 2011, the above court (the "Bankruptcy Court") entered its
11 *Order (a) Approving Plan Solicitation, Notice, and Voting Procedures and (B) Establishing*
12 *Deadlines in and Connection With Solicitation and Confirmation With Respect to all Pending Plans*
13 [Docket No. 2453] (the "Solicitation Procedures Order"), pursuant to which the Bankruptcy Court,
14 *inter alia*, (a) established notice, balloting, and voting procedures in connection with soliciting votes
15 on the Third Amended Plan, (b) fixed objection deadlines to confirmation of the Third Amended
16 Plan, (c) fixed a deadline for receipt of ballots accepting or rejecting the Third Amended
17 Plan, (d) fixed a deadline to file and serve briefs in support of confirmation of the Third Amended Plan, and
18 (e) scheduled a hearing to consider confirmation of the Third Amended Plan;

19 C. On August 23, 2011, the Lehman VD Lenders filed a notice of errata [Docket
20 No. 2600] as to clerical errors in the Third Amended Plan and filed an amended chapter 11 plan
21 [Docket No. 2598] (the "Solicited Third Amended Plan"). The Third Amended Plan and Solicited
22 Third Amended Plan each provide, *inter alia*, that ownership of the real property (the "Ritter
23 Property") of the estate ("Estate") of debtor Palmdale Hills Property, LLC ("Palmdale Hills") and all
24 associated personal property (which includes rights under contracts that are not assumed) would be
25 transferred by the liquidating trustee for the Estate under the subject plan (the "Liquidating Trustee")
26 to an affiliate of the Lehman VD Lenders (a "Lehman Nominee") and provide that separately
27 identified contracts or leases of Palmdale Hills are to be assumed by the Estate and assigned to a
28 Lehman Nominee.

1 D. On and after September 22, 2011, in accordance with the Solicitation
2 Procedures Order, the Lehman VD Lenders filed and served certain documents (collectively, the
3 “Plan Support Documents”), including, without limitation, the following:

- 4 1) *Supplement to the Third Amended Joint Chapter 11 Plan for Eleven*
5 *Voluntary Debtors Proposed by Lehman VD Lenders* [Docket No. 2872];
- 6 2) *Notice of Errata With Respect to Supplement . . .* [Docket No. 3096];
- 7 3) *First Amendment to Supplement to the Third Amended Joint Chapter*
8 *11 Plan for Eleven Voluntary Debtors Proposed by Lehman VD Lenders* [Docket No. 3163];
- 9 4) *Notice of (I) Filing and Service of Exhibits A-1 & A-2 – Lists of*
10 *Contracts and Leases to be Assumed or Rejected Pursuant to the Third Amended Joint Chapter 11*
11 *Plan for Eleven Voluntary Debtors Proposed by Lehman VD Lenders; and (II) Deadline to File any*
12 *Resulting Claims Arising From Rejections* [Docket No. 2842];
- 13 5) *Notice Of (I) Amended Lists Of Contracts Or Leases To Assume Or*
14 *Reject Under The Third Amended Joint Chapter 11 Plan For Eleven Voluntary Debtors Proposed By*
15 *The Lehman VD Lenders; And (II) Deadline To File Any Resulting Claims Arising From Rejections*
16 [Docket No. 3165];
- 17 6) *Notice of: (1) Filing of Supplement to the Third Amended Joint*
18 *Chapter 11 Plan for Eleven Voluntary Debtors Proposed by Lehman VD Lenders; and (2) Deadline*
19 *to File any Resulting Claims From Rejection of Executory Contracts or Unexpired Leases* [Docket
20 No. 2862];
- 21 7) *Notice of Filing of Amended Supplement to the Third Amended Joint*
22 *Chapter 11 Plan for Eleven Voluntary Debtors Proposed by Lehman VD Lenders* [Docket
23 No. 3161]; and
- 24 8) Various other service or notice of the foregoing and/or the list of
25 contracts to be assumed and assigned under the Solicited Third Amended Plan, including as reflected
26 in Docket Nos. 2921, 2930, 2936, 3165, 3173 and 3231.

27 E. The Plan Support Documents identify as a contract to be assumed by the
28 Estate under the Solicited Third Amended Plan and assigned to a Lehman Nominee the *Amended*

1 and Restated Water System Agreement between Los Angeles County Waterworks District No. 40,
2 Antelope Valley, and Palmdale Hills Property, LLC, dated August 15, 2006 (the "Water System
3 Agreement") and indicates that the Lehman VD Lenders contend that no damages accrued and no
4 cure is owing for any defaults with respect to the Water System Agreement or that there has been no
5 default (the "Plan Assumption").

6 F. On October 7, 2011, the Districts filed the *Objection of the County of Los*
7 *Angeles Waterworks Districts No. 37 and No. 40's to the Proposed Cure Obligations Set Forth on*
8 *Exhibit "A-1" of the Third Amended Joint Chapter 11 Plan for Eleven Voluntary Debtors Proposed*
9 *by the Lehman VD Lenders* [Docket #3020], which, among other things, contests the Plan
10 Assumption (the "Assumption Objection").

11 G. On October 24, 2011, District 40 filed in the case of Palmdale Hills, a proof of
12 claim [Claim 119-1], asserting a protective claim for "current and ongoing damages" from alleged
13 defaults with respect to the Water System Agreement (the "Filed Claim").

14 H. On October 25, 2011, at the confirmation hearing with respect to the Solicited
15 Third Amended Plan, the Court continued to November 14, 2011, at 10:00 a.m. the time for a
16 hearing on consideration of the Assumption Objection (the "Further Hearing").

17 I. On November 10, 2011, the Parties filed a stipulation to continue the Further
18 Hearing and to reserve all rights to seek and oppose Plan Assumption [Docket No. 3288] and the
19 Court ordered the continuance of the Further Hearing (which the Court reflects as related to Docket
20 No. 2598).w

21 J. On November 29, 2011, the Lehman VD Lenders filed their *Fifth Amended*
22 *Joint Chapter 11 Plan for Eleven Voluntary Debtors Proposed by the Lehman VD Lenders* [Docket
23 No. 3337] (the "Fifth Amended Plan").¹

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27 _____
28 ¹ Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Fifth Amended Plan.

1 K. On January 6, 2012, this Court entered its order (the "Confirmation Order")
2 confirming and modifying the Fifth Amended Plan [Docket No. 3526] (as amended, the "Plan"),
3 which Confirmation Order, among other things:

4 (1) Approves, pursuant to sections 365(a) and 1123(b)(2) of the
5 Bankruptcy Code, the assumption of, *inter alia*, the Water System Agreement by the Estate and its
6 assignment to LV Ritter Ranch LLC, subject, as a result of the Assumption Objection, to entry of a
7 separate order thereafter (as provided in paragraph 15 of the Confirmation Order); and

8 (2) Provides that the Liquidating Trustee will reasonably cooperate in
9 implementing the Plan, which includes, *inter alia*, the transfers of assets and the assumptions and
10 assignments of contracts contemplated by the Plan (as provided in paragraph 11 of the Confirmation
11 Order).

12 L. On April 26, 2012, the Lehman VD Lenders filed a notice [Docket No. 3692]
13 identifying LV Ritter Ranch LLC (the "Lehman Owner") as the Lehman Nominee for receipt of the
14 Ritter Property and for purposes of the Plan Assumption.

15 M. On April 27, 2012, the Lehman Lenders filed a notice [Docket No. 3693] in
16 the Bankruptcy Case that April 27, 2013, would be the Plan's Effective Date, such Effective Date
17 occurred and the Liquidating Trustee transferred the Ritter Property to the Lehman Owner.

18 N. On May 29, 2012, the Parties filed a further stipulation [Docket No. 4063],
19 which was approved by order of this Court entered June 6, 2012 [Docket No. 4094], which
20 stipulation and order thereupon (1) resolved certain matters and (2) continued to September 18,
21 2012, the Further Hearing as to, and reserved the Parties rights as to, the Plan Assumption.
22 Thereafter, the Parties filed further stipulations requesting and/or the Bankruptcy Court ordered that
23 the Further Hearing be further continued and the Further Hearing presently is set for October 10,
24 2013, at 10:30 a.m. before the Court.

25 O. The Lehman Owner and Districts now have entered into that certain
26 *Settlement Agreement* between them, resolving, *inter alia*, the Plan Assumption, Assumption
27 Objection and the Filed Claim (the "Settlement") and providing for their entry into that certain
28

1 *Amendment No. 1 to the Amended and Restated Water System Agreement between Los Angeles*
2 *County Waterworks District No. 40, Antelope Valley, and LV Ritter Ranch, LLC (the "Amendment").*

3 **NOW, THEREFORE, IT IS HEREBY STIPULATED AND AGREED** by and
4 between the parties to this Stipulation, through their undersigned counsel, that:

5 1. Approval of The Plan Assumption: Based upon the Settlement and
6 Amendment, upon approval of this Stipulation, District 40 withdraws the Assumption Objection and
7 the Parties agree and seek that, under the Plan, the Confirmation Order and the further order upon
8 this Stipulation:

9 a. Assumption: Assumption of the Water System Agreement by the
10 Estate ("Assumption") is to be approved;

11 b. Assignment: Assignment to the Lehman Owner ("Assignment") of the
12 Water System Agreement, as amended by the Amendment (the "Amended Agreement") is to be
13 approved;

14 c. Cure: For the Assumption and Assignment, no cure or other payment
15 or obligation shall be paid or incurred by the Estate, Lehman VD Lenders, Lehman Owner or any
16 other person except for the Lehman Owner's payment to the Districts under the Settlement.

17 d. Implementation: Such Assumption and Assignment shall be deemed
18 to have occurred. Nonetheless, as reasonably requested by the Lehman VD Lenders and as provided
19 in the Confirmation Order, the Liquidating Trustee is to reasonably cooperate in documenting such
20 Assumption and Assignment.

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2. Withdrawal of Filed Claim: The Filed Claim (Claim 119-1 filed by the Districts in the case of Palmdale Hills) is to be withdrawn.

3. The Further Hearing and Matters Therein Are to be Taken Off Calendar: The Further Hearing is to be vacated and matters therein are to be taken off calendar as resolved.

Dated: _____, 2014

STECKBAUER WEINHART JAFFE, LLP

By: _____
Barry S. Glaser
Attorneys for Los Angeles County Waterworks
District No. 40, Antelope Valley, and Los Angeles
County Waterworks District No. 37, Acton.

Dated: _____, 2014

PACHULSKI STANG ZIEHL & JONES LLP

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Attorneys for Lehman VD Lenders

EXHIBIT B

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**AMENDMENT NO. 1 TO THE AMENDED AND RESTATED WATER SYSTEM
AGREEMENT BETWEEN LOS ANGELES COUNTY WATERWORKS DISTRICT
NO. 40, ANTELOPE VALLEY, AND LV RITTER RANCH LLC**

This Amendment No. 1 ("Amendment") is made by and between Los Angeles County Waterworks District No. 40, Antelope Valley, a public county waterworks district formed pursuant to Division 16 of the State Water Code (the "District"), and LV Ritter Ranch LLC (the "Builder") (collectively, the "Parties") as of _____, 2014 (the "Effective Date").

I.

RECITALS

A. As of August 15, 2006, the District and Palmdale Hills Property, LLC ("Palmdale Hills") entered into the Amended and Restated Water System Agreement Between Los Angeles County Waterworks District No. 40, Antelope Valley and Palmdale Hills Property, LLC ("Water System Agreement") (a true and correct copy of which is attached hereto as Exhibit 1).

B. The Water System Agreement concerns water service to be provided by the District to a proposed development project referred to as the "Development" in the Water System Agreement. The Development will be located on real property referred to as the "Ritter Property" in the Water System Agreement.

C. The Builder is (i) the current owner of the Ritter Property and (ii) assignee of Palmdale Hills' rights and obligations under the Water System Agreement.

II.

TERMS OF THE AMENDMENT

WHEREFORE, for valuable consideration, the receipt of which is hereby acknowledged by the Parties, the Parties hereby agree as follows:

A. The definition of the term "Development" set forth on page 3 of the Water System Agreement is hereby deleted and replaced with the following definition: 'Development' means that certain development project consisting of residential and other uses as identified in the summary of the Specific Plan previously approved by the City of Palmdale, commonly referred to as the Ritter Ranch Development and located on the Ritter Property, including any amendments to that Specific Plan that may be hereafter approved by the City of Palmdale so long as such amendments do not authorize more than 4,500 residential units and do not materially increase the water demands attributable to the non-residential uses in the Specific Plan."

B. Exhibit C-1 to the Water System Agreement is hereby deleted and replaced with Exhibit C-1(A) attached hereto. All references in the Water System Agreement to Exhibit C-1 are hereby replaced with references to Exhibit C-1(A).

C. Exhibit C-3 to the Water System Agreement is hereby deleted and replaced with Exhibit C-3(A) attached hereto. All references in the Water System Agreement to Exhibit C-1 are hereby replaced with references to Exhibit C-3(A).

D. Section 3.14 is added to the Water System Agreement and provides as follows: "Prior to the District's issuance of any Conditional Will Serve Letter for the Development, (1) the Builder shall secure the Antelope Valley-East Kern Water Agency's ("AVEK") written permission for the District with the District as third party beneficiary, to have unfettered access and use of AVEK facilities for transportation of potable water to the Project at no cost to the District (e.g., all costs of the water are to be included in AVEK's sales price of the water it sells

to the District as a whole) or in the alternative, (2) the Builder agrees to build the necessary water conveyance infrastructure in lieu of the use of AVEK facilities, and dedicate at no cost that infrastructure to the District for ownership, operations, and maintenance to the District."

E. Section 2.0.2 of the Water System Agreement is hereby amended by adding the following as the new final sentence: "The WSI Plans and Specs shall be prepared and signed by a registered engineer under contract with the Builder."

F. Except as expressly amended by this Amendment, all other terms and conditions of the Water System Agreement remain in full force and effect.

May _____, 2014

Los Angeles County Waterworks District No. 40

By:
Its:

May _____, 2014

LV Ritter Ranch LLC

By:
Its:

APPROVED AS TO FORM ONLY:

APPROVED AS TO FORM ONLY:

JOHN F. KRATTLI
County Counsel

Alston & Bird LLP

By _____
MICHAEL L. MOORE
Principal Deputy County Counsel

By: Edward J. Casey

EXHIBIT C-1 (A)

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EXHIBIT C-3 (A)

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